

# REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL OF MAKHUDUTHAMAGA LOCAL MUNICIPALITY

## Report on the financial statements

### Introduction

1. I have audited the financial statements of the Makhuduthamaga Local Municipality set out on pages xx to xx, which comprise statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standard of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2012 (Act No. 2 of 2013) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Makhuduthamaga Local Municipality as at 30 June 2014 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

## **Emphasis of matter**

## **Restatement of corresponding figures**

7. As disclosed in note 36 to the financial statements, the corresponding figures for the year ended 30 June 2013 have been restated as a result of an error discovered during 2014 in the financial statements of the municipality at, and for the year ended 30 June 2013.

## **Additional matter**

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited supplementary schedules**

9. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

## **Unaudited disclosure notes**

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

11. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.



## **Predetermined objectives**

12. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
  - Basic service delivery and infrastructure: pages x to x
  - Local economic development: pages x to x
13. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
14. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
15. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
16. The material findings in respect of the selected development objectives are as follows:

## **Basic service delivery and infrastructure**

### **Usefulness of reported performance information**

#### **Consistency**

17. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 43 % of the reported indicators and targets were not consistent with those in the approved integrated development plan. This was due to inadequate review of the annual performance report.
18. Section 54(1)(c) of the MFMA determines that the service delivery and budget implementation plan adopted by the municipal council may be amended only if the council approves an adjustment budget. Material changes were made to the indicators and targets in the annual performance report without adoption by the municipal council. This was due to inadequate monitoring of implementation of the service delivery and budget implementation plan.

### **Reliability of reported performance information**

19. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were



unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

## **Local economic development**

### **Usefulness of reported performance information**

#### **Consistency**

20. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 21 % of the reported indicators were not consistent with those in the approved integrated development plan. This was due to inadequate review of the annual performance report.

#### **Measurability**

21. Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 29% of the indicators were not well defined.
22. Performance indicator must be verifiable, meaning that it must be possible to validate the processes and systems that produced the indicator. A total of 29% of the indicators were not verifiable.

This was because management did not adhere to the requirements of the FMPPI due to a lack of proper systems and processes and technical indicator descriptions.

### **Reliability of reported performance information**

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information and the auditee's records not permitting the application of alternative audit procedures.

#### **Additional matter**

I draw attention to the following matter:

#### **Achievement of planned targets**

24. Refer to the annual performance report on pages xxx to xxx for information on the achievement of planned targets for the year. This information should be considered in

the context of the material findings on the usefulness and reliability of the reported performance information for the selected programmes reported in paragraphs 17 to 23 of this report.

## **Compliance with legislation**

25. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Strategic planning and performance management**

26. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the *Municipal planning and performance management regulation* 1 and 9(1)(a).
27. Revisions to the service delivery and budget implementation plan were not approved by the council after the approval of the adjustments budget, as required by section 54(1)(c) of the MFMA.

## **Financial statements**

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Procurement and contract management**

29. Contracts were awarded to bidders based on preference points that were not allocated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and its regulations.

## **Internal control**

30. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on non-compliance with legislation included in this report.

## **Leadership**

31. The accounting officer did not exercise adequate oversight responsibility regarding performance reporting and compliance and related internal controls.



## Financial and performance management

32. The accounting officer did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting
33. Management did not implement daily and monthly processing controls and as a result, the performance report was not properly reviewed for accuracy.
34. The municipality did not prepare an accurate and complete performance report that is supported and evidenced by reliable information.
35. Compliance with applicable laws and regulations was not adequately reviewed and monitored.

*Auditor - General*

Polokwane

30 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

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Mkhudubonga

### Step 5: Representation by Corporate Executive

Based on the representations stated above, except as documented below, I support the auditor's opinion expressed.

#### Comments by CE

No changes to opinion
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Recommended amendments to Auditor's Report	Reasons

Signed by:

  
\_\_\_\_\_  
Corporate Executive

30/11/2014  
\_\_\_\_\_  
Date

Auditor - General

Auditor - General

Auditor - General